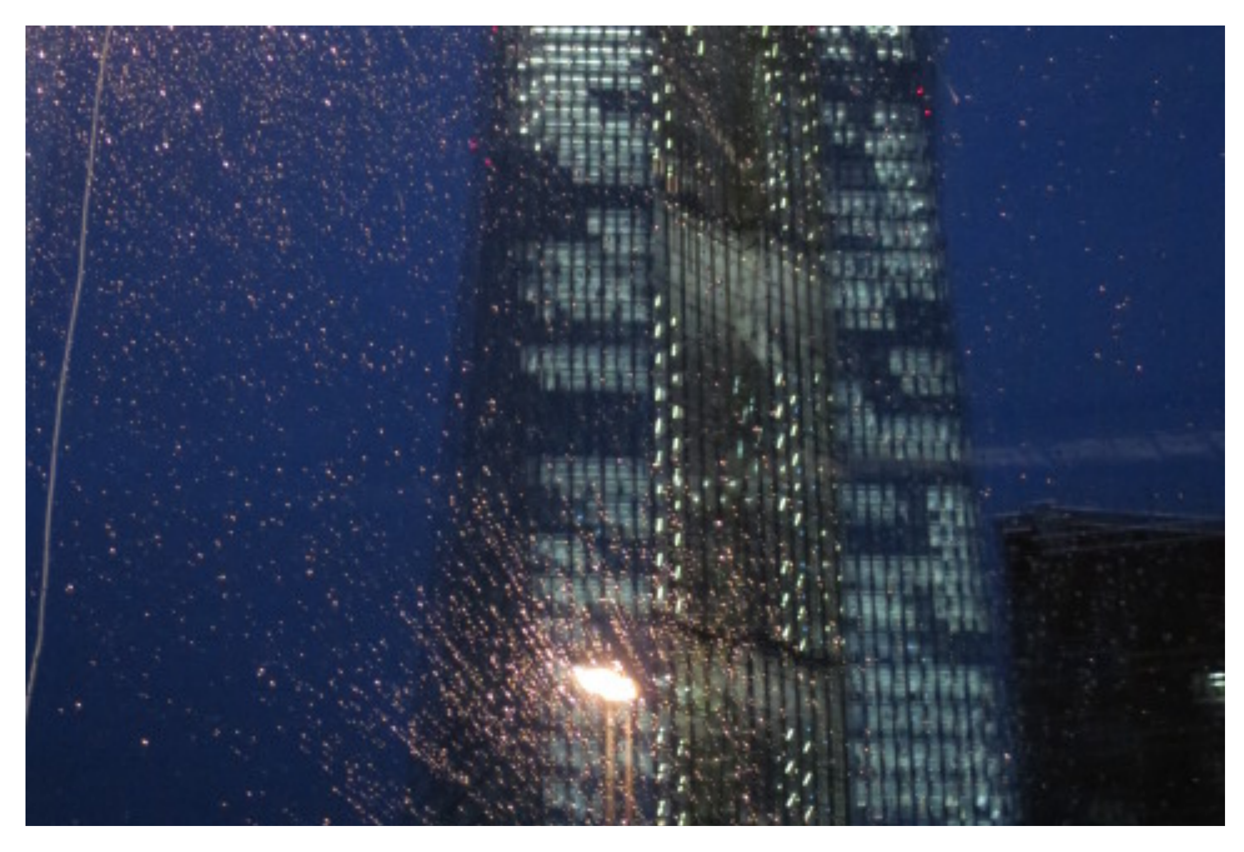






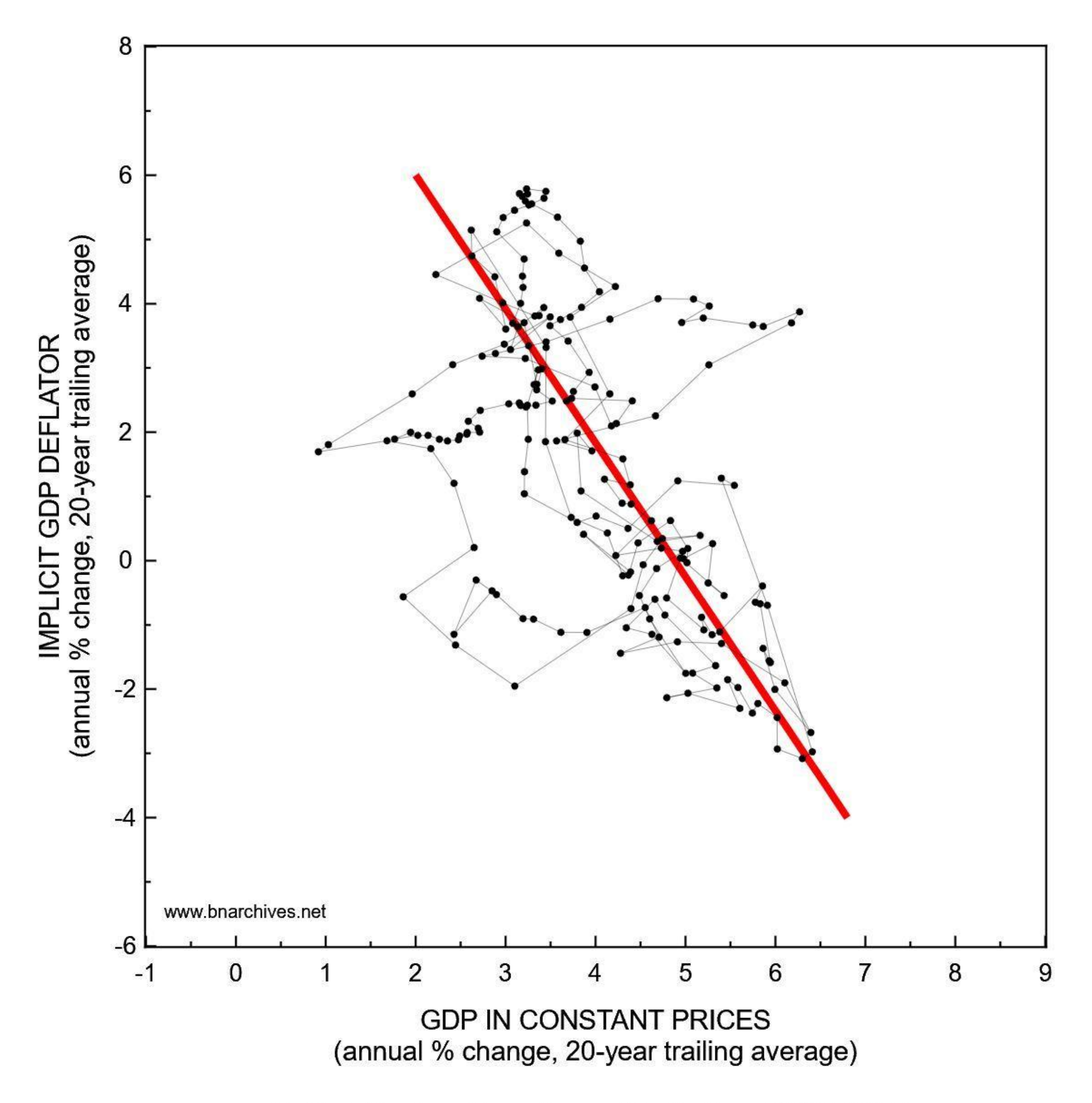
BICHLER AND NITZAN 2022-08-08

THE STAGFLATION NORM

ECONOFICTION GROWTH, INFLATION, PRICES, STAGFLATION

by Shimshon Bichler & Jonathan Nitzan

https://bnarchives.yorku.ca/259/



United States: Growth and Inflation, 1820-2021

NOTE: The straight line runing through the observations is drawn freehand for illustration purposes.

SOURCE: Global Financial Data (series: GDPUSA for nominal GDP, GDPCUSA for GDP in constant prices). The impliict GDP deflator is the ratio of nominal GDP to constant-price GDP.

This figure shows the long-term relationship between the conventional measures of inflation and economic growth in the U.S. (series smoothed as 20-year trailing averages).

As you can see, the relationship is not positive, but negative. Low inflation is associated with high growth, whereas high inflation is commonly accompanied by stagnation – the very opposite of what conventional theory wants us to believe.

This inversion is hardly limited to the U.S. During the postwar period the negative correlation between growth and inflation seems to have become the rule rather than the exception. Here is

the inflation-growth relationship in the industrialized countries (https://bnarchives.yorku.ca/8/)

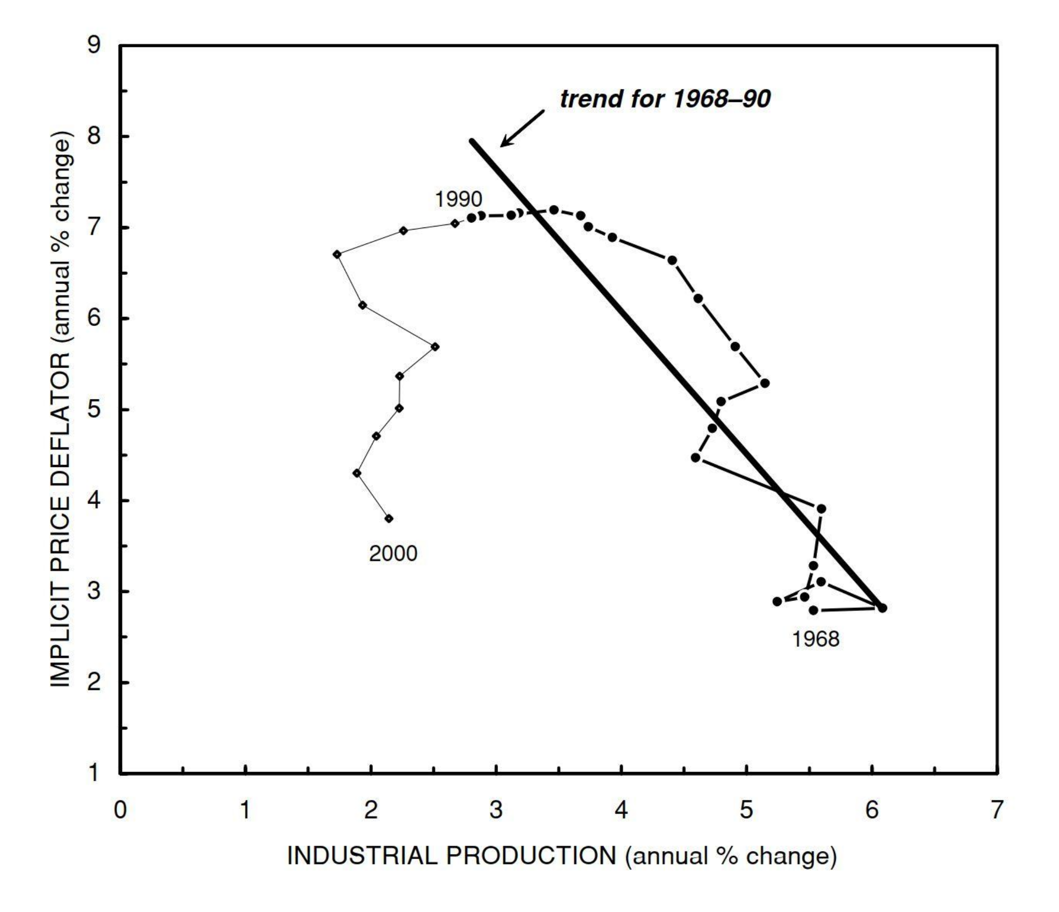
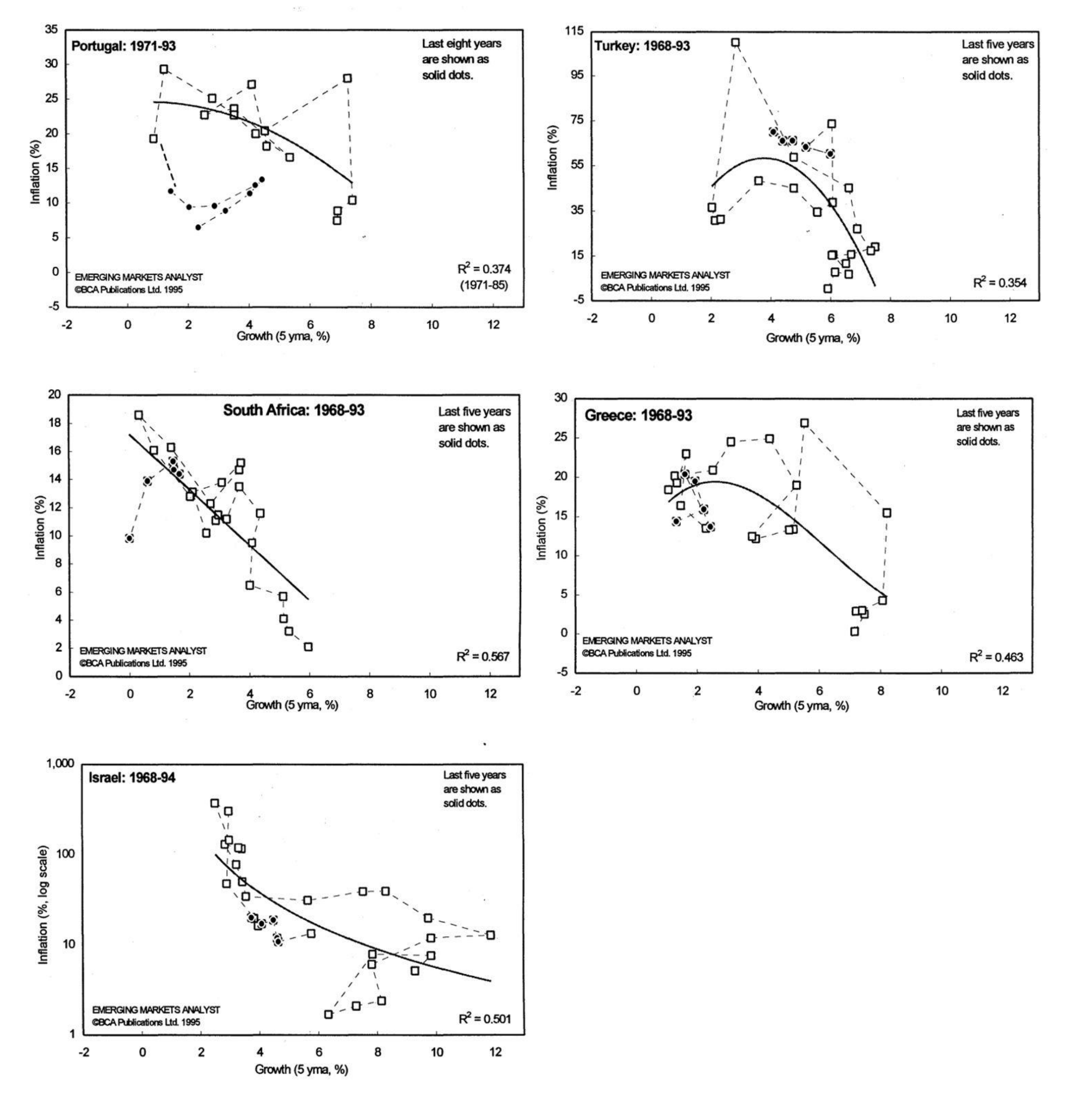


Figure 2.8 Industrialised Countries: Long-Term Inflation and Growth

NOTE: Series are shown as 20-year moving averages. The trend line represents an OLS regression for the 1968–90 period.
SOURCE: IMF through McGraw-Hill (Online).

Here is the same relation for several individual countries (https://bnarchives.yorku.ca/694/)



These data raise an obvious question: if stagflation is the norm and prices tend to rise in the midst of slack, then there is no material scarcity; but if there is no 'real' shortage, why are buyers willing to pay higher prices?

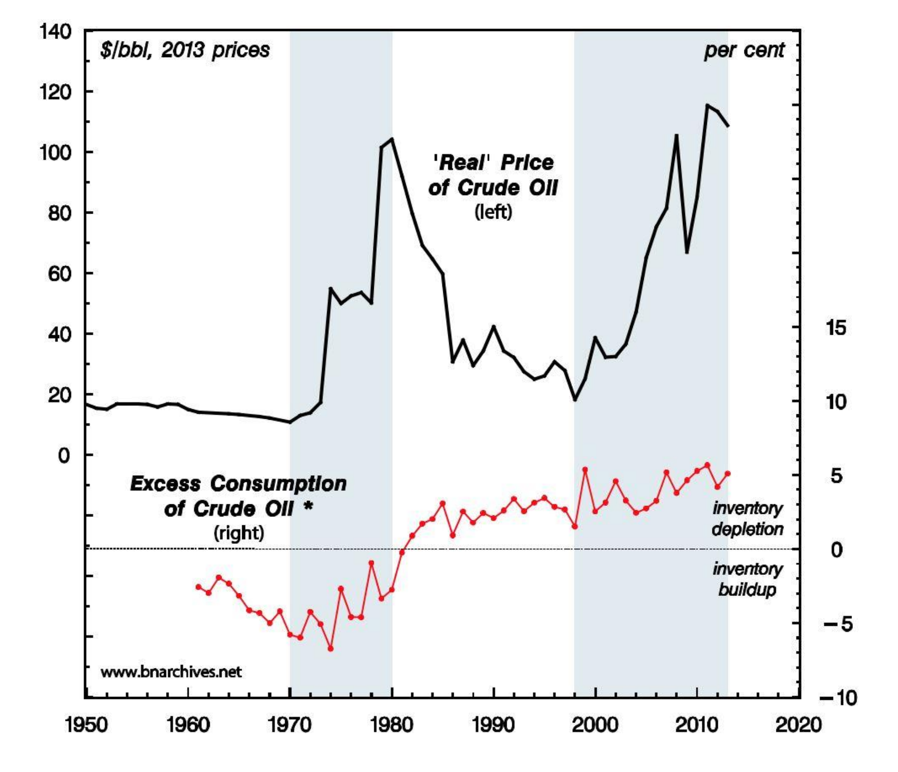
The short answer is that usually they are not willing; they are forced. And the way to force them is by creating, imposing and maintaining various forms of social crisis, apparent or real.

Examples of such crises: military hostilities during the WWI, the reparation crisis of Germany in the 1920s, the global oil crises of the 1970s, rising unemployment in Israel during the 1980, political instability in Russia in the 1990s, debt default in Argentina in the early 2000s, 'peak commodities' in the late 2000s, Covid19 in 2020-2 – these are all illustrations of such inflation-triggering crises.

The key point is that these inflation-triggering crises might be real of fake, but they are ***rarely if ever crises of physical 'scarcity'***. In all of them, 'scarcity' is created not by lack of commodities, but by sellers raising their prices.

Take the example of oil. As this chart shows, the 'real' price of oil (deflated by the U.S. CPI) has nothing to do with excess consumption/production. It is the result not of physical scarcity, but of 'energy conflicts' in oil producing regions (the latest one being the Russian invasion of Ukraine).

Figure 1: 'Scarcity' and the 'real' price of oil



* Excess consumption of crude oil is the difference between world consumption and world production, expressed as a per cent share of the average of world consumption and world production.

NOTE: Series show annual data. Consumption and production of crude oil include crude oil, tight oil, oil sands and NGLs (the liquid content of natural gas where this is recovered separately); they exclude liquid fuels from other sources such as biomass and derivatives of coal and natural gas. The 'real' price of crude oil is the dollar price deflated by the U.S. CPI. The last data points are for 2013

SOURCE: *BP Statistical Review of World Energy,* April 2014 and earlier issues (for oil consumption and production). IMF International Financial Statistics through Data Insight (series codes: L76AA&Z@C001 for the average price of crude oil; L64@C111for the U.S. CPI).

And in this and every other case, inflation is always ***redistributional***.

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